Saskatchewan
Property Management
Corporation

Annual Report 1986-87

Letter of Transmittal

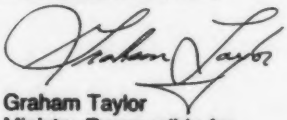
Regina, Saskatchewan
February 11, 1988

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the Province of Saskatchewan

Sir,

I have the honour to submit herewith the Annual Report of the Saskatchewan Property Management Corporation for the period March 25, 1986, to March 31, 1987. Included are financial statements for the year duly certified by Deloitte Haskins + Sells, chartered accountants, and in a form approved by the Treasury Board, all in accordance with The Saskatchewan Property Management Corporation Act.

I have the honour to be, Sir,
Your obedient servant,



Graham Taylor
Minister Responsible for
Saskatchewan Property Management Corporation

Report from the Chairman of the Board

Hon. Graham Taylor
Chairman of the Board of Directors

Nineteen eighty-six was a landmark year. During the year, the Government of Saskatchewan created the Saskatchewan Property Management Corporation, a Crown corporation with a mandate to manage provincial assets worth more than $500 million.

As a Crown, the corporation will operate with private sector business principles. This will give the Saskatchewan Property Management Corporation the flexibility it needs to operate efficiently in an unpredictable economy. For example, we can now finance the capital costs of building hospitals, nursing homes, educational institutes and other projects over the useful life of these assets. This will lessen the strain these building programs put on the province's financial resources, while introducing a businesslike approach.

Private sector business principles, with market-based pricing strategies will also give an accurate picture of the real costs of government programs. With this information, managers and the public will be able to judge their programs realistically. This is key to maintaining and improving public sector services.

On behalf of the Board of Directors, I congratulate the management and staff of the corporation for their dedication and commitment during this first year. I also thank my colleagues on the Board for their contributions to this landmark year.

Our intent in establishing the Property Management Corporation was to create a more efficient, more responsive organization. I believe we are achieving this goal.

Graham Taylor
Chairman of the Board of Directors

Report from the President and Chief Executive Officer

Otto Cutts
President and Chief Executive Officer

In the March, 1986 Budget Address to the Saskatchewan Provincial Legislature, Minister of Finance J. Gary Lane said that "one of the ways that expenditures of government will be controlled is through the creation of the Property Management Corporation."

How will this corporation control expenditures? By departing from supplying office space and services to government departments and public agencies at no cost.

The corporation will be run like a business. It will recover costs from its clients. They will pay market value rents for their space and work these costs into their budgets. This enhances accountability.

The Property Management Corporation will also act as a banker. It will finance capital building projects for its clients, including independent boards in health care and education.

This was our transitional year. It was the year we put the corporation together, and put the government's plan into action. We prepared our financing arm to begin operating and completed annual cash forecasts and five-year cash forecasts.

And, of course, we staffed the new corporation. An in-house implementation team guided everyone in the early stages. At first, people from Supply and Services transferred to the new corporation as they were needed. By March 1, 1987, all 1,400 employees had been transferred.

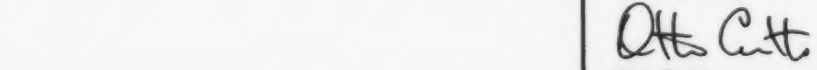
We did all this while maintaining quality service to our clients. During this period, Supply and Services operated its day to day programs. A record of the year's activities can be found in the 1986-1987 Annual Report for the department.

And we worked with our clients throughout the transition. Two committees were set up to facilitate a smoother transition: an advisory committee of deputy ministers from our major clients, and an operational advisory committee made up of representatives from other clients. I thank both committees for the help they gave us.

We are also grateful for the guidance and understanding we received from our Board of Directors.

My first year as president has been a challenge of the most rewarding kind. I am confident that the Property Management Corporation has what it needs . . . in people, in resources, in support . . . to meet the challenges of the future.

In my view, we have one of the best trained, most dedicated group of employees in the business. We will fulfill the government's goal by helping to control government expenditures through greater accountability.



Otto Cutts
President and Chief Executive Officer

From Department to Corporation

Looking for solutions

Governments everywhere are under pressures. They face increasing demands for programs that keep costing more to deliver, at a time when revenue bases are constant or shrinking.

To help counter this pressure, the Government of Saskatchewan seeks to take greater control over its expenditures. A major area of concern is government funded accommodation, its management and its development.

Can we make government departments more accountable for the space they use? Can we manage these affairs more efficiently, at less cost? Can we finance construction of facilities in a more business like fashion?

The government's answer to all these questions is yes.

Creating a new Crown

On March 26, 1986, in the Throne Speech to the First Session of the Twenty-first Legislature, the government announced its plan. It will create a new Crown corporation, the Saskatchewan Property Management Corporation.

In January, 1987, Cabinet approved the transfer of all functions of Supply and Services, except for the Systems Division. These functions included purchasing, mail services, print services, air services and survey and mapping, among others.

By March 1, 1987, the transfer of staff was complete.

The Legislation for the new Crown corporation received Royal Assent, November 6, 1987.

Our mandate

The Saskatchewan Property Management Corporation must supply accommodation for government departments, boards, agencies and commissions at market value, subject to approval from the Treasury Board.

This mandate includes managing the provincial real estate portfolio. These assets are the property of the corporation. It must also help provide financing for the third party capital construction projects through its client departments.

And the corporation continues to offer a services package that assists clients to more efficiently manage their programs.

Building on 80 years' experience

Supply and Services has been doing a good job for 80 years. It has given government departments and public agencies quality service. We have a profesional workforce, knowledgeable and dependable.

None of this will change. With a Board of Directors to give it direction and operating policies, the corporation will build on this solid foundation.

Grouping forces

During the transition, we re-organized our operations.

The Procurement-Buy Saskatchewan division consolidated the Supply division, the informatics activities of the Systems division, Central Survey and Mapping and the Buy Saskatchewan Agency.

Operations and Services were consolidated through the Commercial Services division and the Operations and Maintenance division. This division provides services such as mail, print, photography and the maintenance and operation of property.

A renewed emphasis on realty management has resulted in the creation of the Realty division. It manages the provincial real estate portfolio, previously carried out by the Planning and Development division.

Facility Planning and Management is the new name for the Planning and Development division. Capital Financing and Forecasting was added. It administers the funding of third party capital programs.

Information Services division takes responsibility for the corporation's internal information systems. It developed a property management and corporate accounting system, intregrated and computerized.

The Finance and Administration division designed and implemented a new financial accounting system and chart of accounts.

Taking care of our people

The Saskatchewan Property Management Corporation could not have managed to accomplish all that it has during this year of transition, without good people.

All employees were given offers of employment from the corporation. An implementation team and regular information meetings helped employees through the transfer.

Those employees who were unionized continue to be represented by the Saskatchewan Government Employee Union and the Canadian Union of Public Employees.

Financial Statements

Management's Responsibility for Financial Statements

Management is responsible for the integrity of the financial data reported by the corporation. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position and the results of operations and changes in cash flow.

The Corporation's accounting system and internal control systems are designed to provide reasonable assurance that assets are properly safeguarded, and financial records are properly maintained to provide reliable information for use in the preparation of the financial statements.

These financial statements have been examined by the corporation's external auditor, whose report is set out below.

Otto Cutts,
President

Shirley Raab,
Vice President, Finance

Auditors' Report

To the Members of the
Legislative Assembly,
Province of Saskatchewan:

We have examined the statement of financial position of the Saskatchewan Property Management Corporation as at March 31, 1987 and the statements of income and retained earnings and of cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at March 31, 1987 and the results of its operations and the changes in its cash flow for the year then ended in accordance with generally accepted accounting principles consistently applied.

Deloitte Haskins & Sells.

Auditors
February 11, 1988

Statement of Financial Position **Statement 1**
As at March 31, 1987

	(000's)
Assets	
Accounts Receivable	$ 6,297
Inventories	300
Prepayments	28
Organizational Costs	46
Loans Receivable	154,464
Construction Work in Progress	17,621
Buildings	136,781
Land	4,841
Equipment	2,126
	$322,504
Liabilities and Equity	
Liabilities	
Bank Indebtedness	$ 10,490
Accounts and Holdback Payable	24,231
Unearned Accommodation Revenue	168
Promissory Note (note 3)	181,993
Long Term Debt (note 4)	13,411
	230,293
Equity	
Province of Saskatchewan Equity (note 5)	89,318
Retained Earnings	2,893
	92,211
	$322,504

(See accompanying notes to financial statements)

Statement of Income and Retained Earnings **Statement 2**
For the period ended March 31, 1987 (Note 10)

	(000's)
Revenues	
Interest	$ 10,152
Accommodation	7,638
Grants	600
Miscellaneous	1
	18,391
Expenses	
Interest (note 6)	10,161
Building	1,961
Grants	609
Computer Systems	589
Development Costs	297
Organizational Costs	246
Accounting Costs	47
Other	43
Audit Fees	15
Salaries and Benefits	3
	13,971
Income Before Extraordinary Item	4,420
Write Down to Appraised Value of Computer Equipment	1,527
Net Income and Retained Earnings, End of Period	$ 2,893

(See accompanying notes to financial statements)

Statement of Cash Flow **Statement 3**
For the Period Ended March 31, 1987 (Note 10)

	(000's)
Cash Provided By (Used For) Operating Activities	
Net Income	$ 2,893
Non-Cash Item Affecting Operations, Extraordinary Item	1,527
Loans to Third Parties	(154,464)
Net Change in Working Capital Balances (note 7)	17,125
	(132,919)
Cash Provided By (Used For) Capital Activities	
Additions to Property and Equipment	(162,896)
Increase in Holdback Payable	603
	(162,293)
Cash Provided By (Used For) Financing Activities	
Proceeds from Promissory Note	181,993
Proceeds from Long Term Debt	14,576
Repayment of Long Term Debt	(1,165)
Province of Saskatchewan Equity	89,318
	284,722
Bank Indebtedness, End of Period	$ 10,490

(See accompanying notes to financial statements)

Notes to the Financial Statements
March 31, 1987

1. Authority

The Saskatchewan Property Management Corporation was created by Order-in-Council #357-86 on March 25, 1986 under authority of **The Crown Corporations Act, 1978**. The Saskatchewan Property Management Corporation has been established to assume public works activities, real estate management and capital property financing for third parties.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

a) Loans Receivable
The Corporation charges interest on outstanding loans on a monthly basis. Loans are repaid following a predetermined amortization schedule.

b) Inventories
Inventories are valued at the lower of cost and net realizable value.

c) Capitalization of Costs
The Corporation capitalizes all direct costs relating to projects under development. In addition, the Corporation capitalizes a portion of general and administrative expenses and interest.

d) Property and Equipment
Property and equipment transferred to the Corporation by the Province of Saskatchewan is valued on the following bases:

Special purpose properties are valued at depreciated replacement cost.

Income producing properties are valued at discounted cash flows from future operations.

Equipment is stated at appraised value.

e) Depreciation
Depreciation on buildings is recorded on a straight line basis over their estimated useful lives commencing in the first fiscal year after acquisition or completion of construction. The estimated useful lives of income-producing and corporate properties are between 20 to 80 years.

Depreciation on equipment is recorded on a straight line basis over their estimated useful lives ranging from 3 to 5 years.

3. Promissory Note

At March 31, 1987, the Corporation had a promissory note of $181,993,000 due to the Province of Saskatchewan. This note, due June 30, 1987 and bearing interest of 7.05% has been extended to March 31, 1988 at an interest rate of 8.75%.

4. Long Term Debt — Crown Management Board

	(000's)
Loan, 12¼%, payable in monthly installments of $210,466, unsecured	$11,939
Loan, 13%, payable in monthly installments of $26,518, unsecured	1,472
	$13,411

Principal repayments required in each of the next five years are as follows:

1988	$ 1,310
1989	1,483
1990	1,668
1991	1,880
1992	2,118
	$ 8,459

5. Province of Saskatchewan Equity

During the year, the Province of Saskatchewan contributed equity of $89,318 through assets transferred to the Corporation.

6. Interest Expense

	(000's)
Interest Incurred	$13,049
Less: Interest Capitalized	2,888
	$10,161

7. Net Change in Working Capital Balances

Cash provided (used for) changes in working capital balances:

	(000's)
Accounts receivable	$ (6,297)
Inventories	(300)
Prepayments	(28)
Organizational costs	(46)
Accounts payable	23,628
Unearned accommodation revenue	168
	$17,125

8. Subsequent Event

Subsequent to March 31, 1987, the Province of Saskatchewan passed a bill to transfer the net assets of the Department of Supply and Services to the Corporation. The estimated value of the net assets is $366,300,000.

9. Related Party Transactions

Administrative and support services provided by the Saskatchewan Department of Supply and Services have not been charged to the Corporation and consequently related expenses have not been reflected in these financial statements.

Included in these financial statements are revenue and expense amounts resulting from routine operating transactions conducted at prevailing market rates with various Saskatchewan crown-controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statements of financial position and are settled in normal trade terms.

10. Period of Operations

These financial statements reflect the operations of the Saskatchewan Property Management Corporation for the period from March 25, 1986 to March 31, 1987.

11. Additional Information

a) School Board Funding
During the year $20,950,000 was received from the Consolidated Fund to provide funding for various school board construction projects. At December 31, 1987, $15,311,031 was unpaid and is included in its accounts and holdback payable.

b) Revenue Transactions
Substantially all of the corporation's revenue transactions are with Saskatchewan Crown-controlled departments, agencies and corporations and public institutions.

c) Loans Receivable
The agreement states that the Crown undertakes to pay to the Corporation on behalf of the borrower, an annual grant equal to each annual installment of principal and interest. The borrower irrevocably authorizes and directs the Crown to pay annual amounts to the Corporation on its behalf to be applied in payment of principal and interest. In addition, the agreement provides that the borrowers' obligation to repay all installments of principal and interest as they become due shall be conditional upon the Crowns continued payment of the annual grant.

From Department to Corporation (continued)

Thanking our clients

The year that this Annual Report covers from March 25, 1986, to March 31, 1987, was a year of transition. The transition would have been more difficult without the patience and assistance of our clients.

Working together with them, we developed an Accommodation Manual as a guide to how we do business. Furthermore, they assisted us in the development of a process for third party financing for hospitals, universities, schools and special care homes.

They were a major resource during this period of change and we thank them.

A new model

The Provincial Government created the Saskatchewan Property Management Corporation to gain greater control over its expenditures in delivering public programs. It wants this new corporation to operate as a business, to make market forces bring out the best in its managers.

The corporation focuses on the business of property management. We know our revenues. We know our borrowing power. We know our operating costs. And we know how to use the tools of business.

This year we changed our attitude about the services we provide. And we made the transition from a government department to a Crown corporation, from a no-charge service to a business.

What we didn't change was the quality of work Supply and Services has spent 80 years perfecting.

Board of Directors

Graham Taylor
Chairman of the Board

J. Gary Lane, Q.C.
Vice Chairman

Lorne Hepworth
Director

George McLeod
Director

Executive Officers

Otto Cutts
President and Chief Executive Officer

Ken Brehm
Corporate Secretary

Shirley Raab
Corporate Treasurer

Corporate Head Office
2045 Broad Street
Regina, Saskatchewan
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